

**Property, Plant and Equipment (PP&E) Policy
Office of the Under Secretary of Defense (Acquisition,
Technology and Logistics)**



**Federal Acquisition Regulation:
A New Proposed Rule for Property Management
Public Meeting
April 13, 2004**

Changes to FAR, Sub-parts 45 and 52

- **In the early 1990s, several proposed re-writes of the FAR, Sub-part 45 (Government Property) were initiated. For many reasons, the proposed rules were not implemented; however, those prior efforts are not without benefit**
- **Current FAR property language is over 50 years old. Past efforts to revise failed to consider the context of the time (circa 1950)**
- **“Industrial-age” language has little relevance to contemporary methodologies (i.e., ERP, UID, RFID)—continues to hinder real reform**

Highlights of New Property Rule

- **Ensure** consistency with the mission-oriented goals of the acquisition community
- **Provide** a framework for solutions: the necessary conformity---and the elasticity to move toward best value
- **Shift** management from a prescriptive, regulation-based model—to a process-oriented, outcome-based model
- **Introduce** industry leading practices for property management as the norm; allow, encourage and support the use of process-oriented life-cycle approach
- **Maximize** continuous improvement and joint problem-solving
- **Eliminate** superfluous, obsolete, and conflicting requirements

There are Three Primary Changes Contained in This Proposed Rule

- 1. A single clause for contract property management; all contractor requirements are contained within a single property clause**
- 2. The clarification of context - i.e., the debate over official “records” comes to an end**
- 3. The sanctioning of industry leading practices for property management**

1. A Single Property Clause

52.245-1 - Property Management

All contractor requirements are contained within a single property clause

That's right. No more:

- 52.245-1 (Property Records)**
- 52.245-2 (Fixed-Price)**
- 52.245-3 (Identification)**
- 52.245-4 (Short Form)**
- 52.245-5 (Cost Reimbursement)**
- 52.245-19 ("As Is")**

There are no longer any contractor requirements in FAR 45.5. Everything is contained within the clause--a single clause for contractors and Property Administrators.

2. Clarification of Context

52.245-1 - Property Management

Clarification of context (i.e., the debate over records comes to a

**I will explain;
But first, let's go back in time**



“Historically, it was noted that prior to promulgation of the “Manual for Control of Government Property in (the) Possession of Contractors,” ASPR Appendix B, generally the practice of the military departments to maintain the property records for Government property provided to contractors...” Concurrently, contractors also maintained property control Records and a system for identifying Government Property.”

“In the elimination of this obviously unnecessary and costly duplication of effort, the Government will save money and increase efficiency.”

ASPR Committee, Sept 24, 1957

So What's the Problem?

- **The FAR “Framers” got it wrong**
- **There was “no duplication of effort”**
- **It was two different things:**
 - 1. The Government’s records are fiduciary in context**
 - 2. The contractor’s records are custodial (stewardship) in context**

Stewardship vs. Fiduciary Responsibility

Stewardship Responsibility - The requirement placed on an individual who acts as the custodian of another individual's property by controlling, supervising and managing the property in one's care.

Vs.

Fiduciary Responsibility - The trust imposed on an individual requiring the utmost degree of integrity and prudence over Government resources to ensure effective management and compliance with laws and regulations governing property entrusted by "the people" (taxpaying citizens).

Important Change!

- **This is one of the more important changes to the FAR — the concept of stewardship responsibility**
- **You will no longer see language referring to the “Government’s Official Records”**

3. Industry Leading Practices

52.245-1 - Property Management

The sanctioning of industry leading practices for property management

Example: Contractor Records

- Accounts Receivable
- Invoices
- Material, Work Orders
- Equipment Records
- Property Records
- Purchase Orders



**How?
By what Standard?**

Contractor Records (cont.)

- Accounts Receivable
- Invoices
- Material, Work Orders
- Equipment Records
- Property Records
- Purchase Orders



“Sound Industrial Practice”

Best Commercial Practice

“Industry Leading Practice”

What Does This Mean?

- **In the NEW clause:**

- **“The contractor shall manage (control, use, preserve, protect, repair, and maintain) government property in its possession”**
 - **“Consistent with industry leading practices and standards for property management; The contractor shall initiate and maintain the processes, systems, records, and methodologies necessary for effective control of government property.”**

- **As opposed to the old (current) FAR language, which says:**

- **“The contractor shall establish and maintain adequate control records for all Government property...”**

So What are Industry Leading Practices? They are Everywhere You Look!

- **Leading Practices:** “Strategies and processes that are both quantifiably and qualitatively demonstrated to be top performing”
- **Best Practices:** “The marriage of applied behavior and knowledge—that have been demonstrated and validated to yield a competitive advantage for organizations that employ them

ISO

ASTM

NPMA

APICS

AMA

DCMA

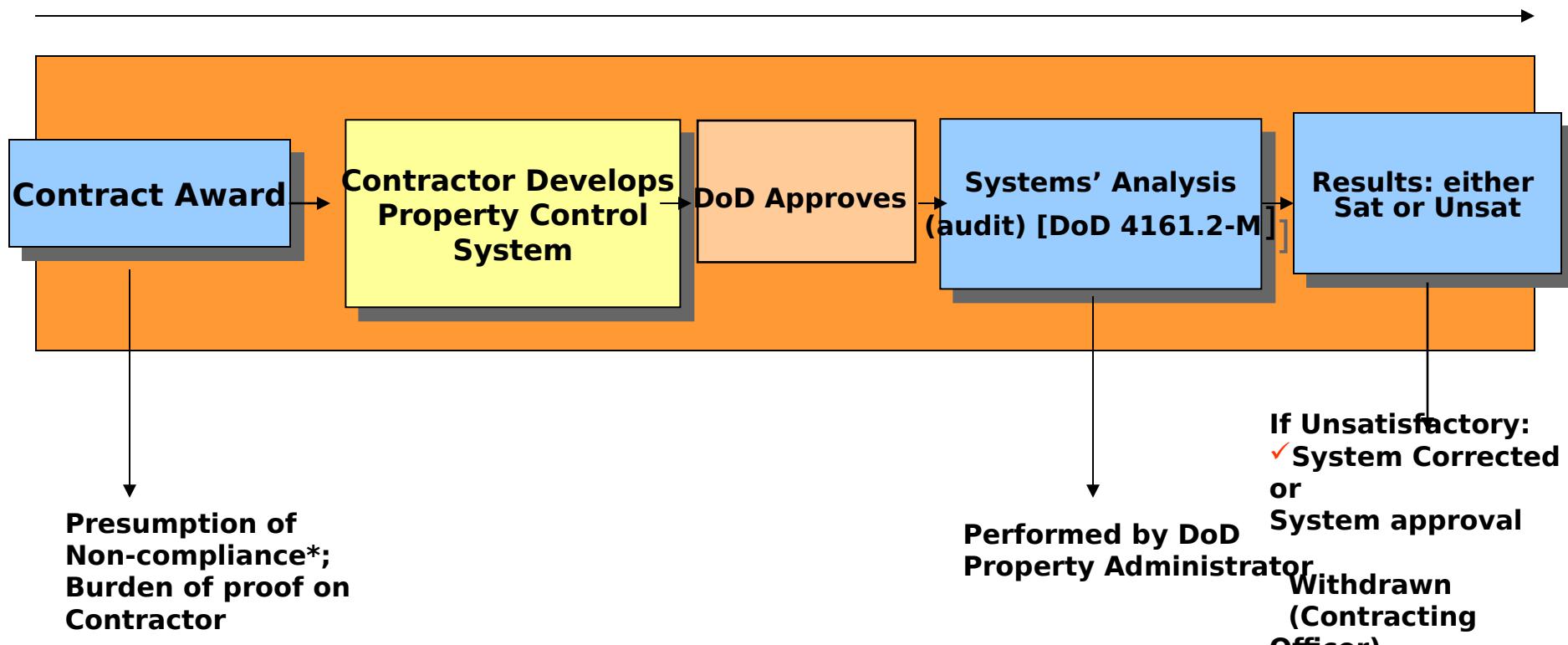
APQC

DAU

Voluntary Consensus Standards

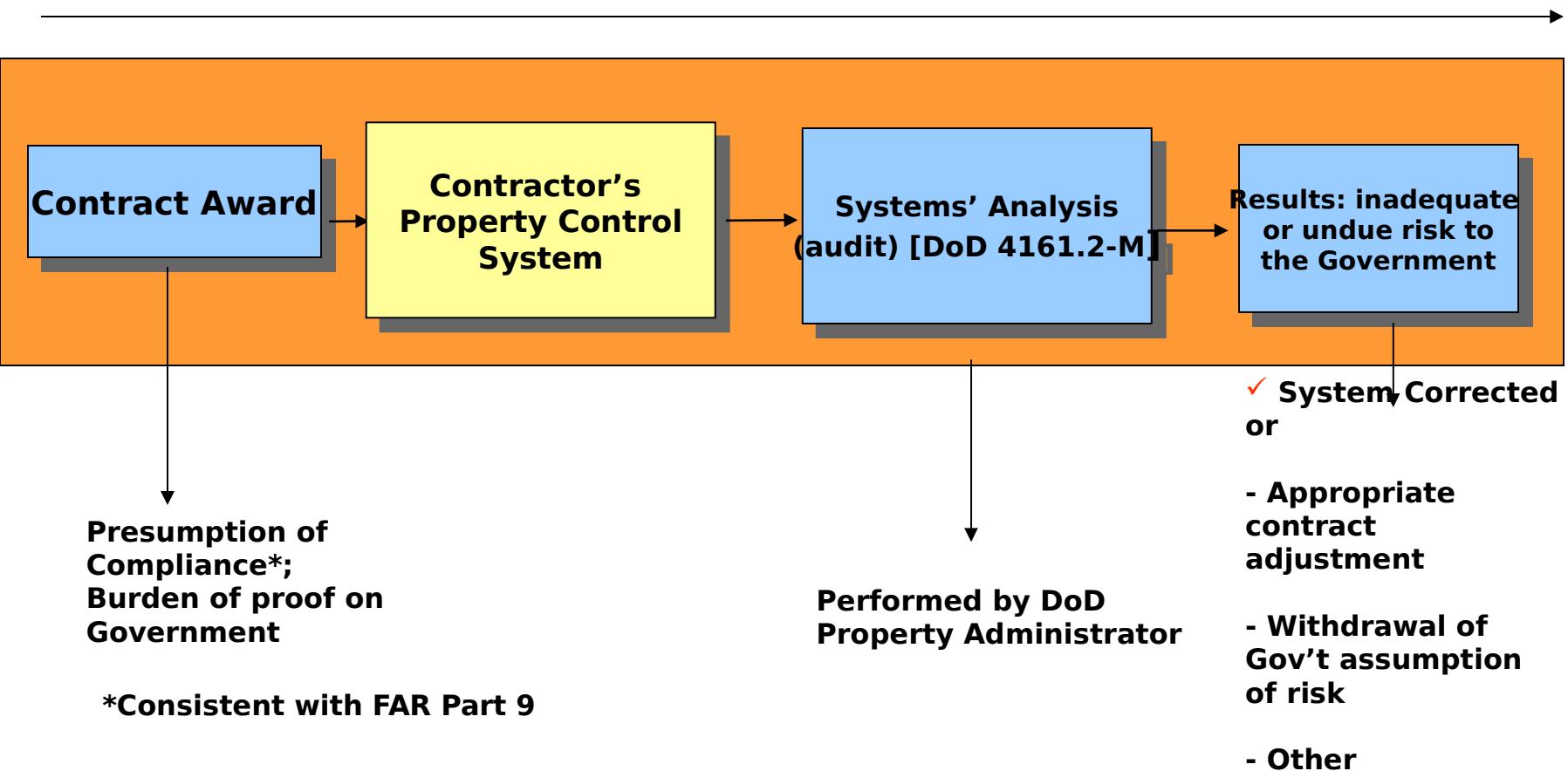
The Federal Acquisition Regulations (FAR) Part 11 describes agency needs and addresses the use of Voluntary Consensus Standards in writing the government's requirements. OMB Circular A-119 and the FAR mandate the use of voluntary consensus standards in lieu of government-unique standards. The use of existing standards provides substantial cost benefits for the government.

Current process



***Runs counter to FAR Part 9, Contractor Qualifications:**
“...have the necessary organization, experience, accounting and operational controls, and technical skills, or the ability to obtain them (including property control systems)”

Proposed process

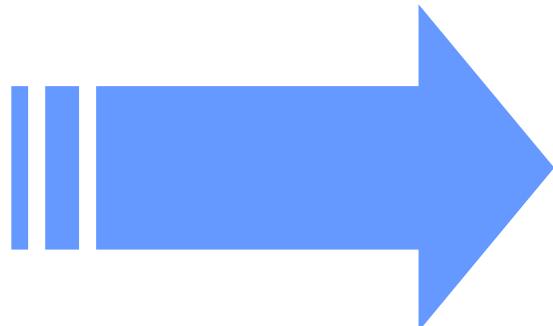


In Other Words...

CURRENT FAR:

Is system
adequate?

Based on...?



PROPOSED RULE:

Is system
adequate?

Based on Industry
Leading Practice

Sub Part 45: Is now the Government's requirements

The Property Administrator shall notify the contractor, in writing, when its property management system does not comply with contractual requirements (i.e., is inadequate, and/or presents an undue risk to the Government), and shall request prompt correction of deficiencies and a schedule for their completion. If the contractor does not correct the deficiencies within a reasonable period of time, the Property Administrator shall notify the contractor, in writing, that failure to take the required corrective actions (within a time specified) may result in:

- 1. Appropriate adjustment and/or**
- 2. Withdrawal of the Government's assumption of risk for loss, damage, or destruction or**
- 3. Other such action as the Contracting Officer may direct, in accordance with agency procedures**

Liability -- Government Assumption of Risk*

CURRENT FAR

Two clauses

1. Fixed-Price
Competitive:
Contractor liable for
LDD

2. Cost-
Reimbursement:
Government self
insures unless CO
withdraws system
approval

PROPOSED RULE

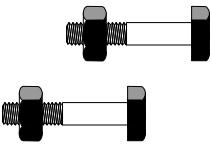
One clause for all contracts

1. Government self-insures
unless CO withdraws
assumption of risk

Other Issues

- **Special Test Equipment Clause**
- **Special Tooling Clause**
- **Facilities Clause**
- **New Clause for A-76 Process**

Accountability and Valuation Requirements for Government Furnished/Contractor Acquired Equipment and Materials

ASSET TYPES	ACCOUNTABILITY REQUIREMENT	FINANCIAL TREATMENT	DISPOSITION
GFE <ul style="list-style-type: none"> - Test equipment - Production equipment - Other Equipment 	 <p>Record in Government owned property system. Location must reflect contractor site and be updated if it changes.</p>	<p>Reported as PP&E. Expensed if under \$100K; Capitalized if \$100K or more</p>	<p>Transferred from contract to contract until declared excess and disposed IAW FAR 45.6</p>
GFM <ul style="list-style-type: none"> - Parts - Sub-assemblies - Materials 	 <p>Recorded in a contractor owned property system monitored by DCMA/DCAA for compliance. PMs must be able to associate with production end items and have visibility of assets until consumed.</p>	<p>Reported as WIP until delivered in an end item; then full cost of end item (including GFM) is capitalized.</p>	<p>Usually consumed (confirmed at time of receipt via WAWF); excess may be transferred to another contract; seldom returned to government</p>
CAP <ul style="list-style-type: none"> - Test equipment - Equipment - Parts - Material 	 <p>Must be recorded in a contractor owned property system monitored by DCMA/DCAA for compliance.</p>	<p>Costs are included in end item. If end item is capital, full cost of end item (including CAP) is capitalized.</p>	<p>Material is usually consumed; excess may be transferred to another contract; or disposed of IAW FAR 45.6. Delivery must be via line item (DFAR case)</p>